VZCZCXRO2526
OO RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHVL #0941 3091121
ZNR UUUUU ZZH
O 041121Z NOV 08
FM AMEMBASSY VILNIUS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3033
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS VILNIUS 000941

SIPDIS
SENSITIVE
AMEMBASSY MINSK SENDS

E.O. 12958: N/A
TAGS: EFIN ETRD PGOV PREL BO
SUBJECT: BELARUS AND THE GLOBAL FINANCIAL CRISIS: IMF MISSION DOWN ON PROSPECTS FOR LOAN, TRUE REFORM

REF: A) VILNIUS 928, B) TORGERSON-MOORE TELCON 10/31/08

¶1. (SBU) As discussed refs, the global financial crisis is beginning to be seen in various ways in Belarus, and GOB economists realize the necessity of economic reforms. However, there are no solid indications that the country's political leadership is prepared to junk its failed obsession with state control and empty rhetoric about Belarus' "economic miracle."

¶2. (SBU) These views were reinforced in Charge's November 4 meeting with Neven Mates, IMF resrep in Moscow and head of the current IMF mission to Belarus considering a request for a USD 2 billion loan. Mates said that the chance of reaching an agreement with the GOB was only about one in five. Mates relayed that IMF leadership in Washington is insisting on the devaluation of the Belarusian ruble (BYR) by about 20 percent as a minimum requirement. (Note: The current rate, about BYR 2130:USD 1, would slip to over BYR 2500. End note.) He posited the alternate idea that the GOB cancel its already-announced plans to increase salaries for workers at state-owned enterprises (SOE) by 21 percent at the end of this month, but added that IMF/Washington does not agree with that approach at this time.

¶3. (SBU) From his review of the regime's data and general observations, Mates confirmed to Charge that for years the GOB has been consistently squandered its profits into infrastructure -- in many cases, unsustainable, unnecessary, and/or unprofitable projects -- when it should have built up its reserves. He described GOB willingness to privatize SOE but noted that there was little understanding for the need for internationally-competed, public tenders. Mates also agreed with Charge that the GOB was overconfident about the amount of funds that might be raised through privatization given global economic conditions. Mates is scheduled to leave Minsk on November 6, but may be told to stay longer.

Comment

¶4. (SBU) Soon after Belarus gained its independence in 1991, economic problems brought significant numbers of people into the street. The regime is aware of this, of course, and for fourteen years has plastered the public with triumphalist rhetoric about their economic and political successes, with "stability" being a watchword. Significant devaluation and/or cancellation of promised wage increases for the majority of Belarus' workers would obviously contradict the official rhetoric and will be very poorly received. (Note: To the less-than-enlightened leadership, it might be more attractive to "tough things out" and blame problems on the country's enemies. End note.) It must also be said there are many arguments for additional political conditionality for IFI loans, as there have been no changes in the human rights situation since the USG suspended some economic sanctions two months ago or the EU suspended most travel restrictions mid-October. We would like to think that U.S. and EU pressure and the realities of the global financial crisis would force some intelligent and modern strategic thinking, but Europe's last dictatorship has disappointed us before.

MOORE
CLOUD